



CALIFORNIA Economic Indicators

May–June 2004

Employment: The Missing Piece to Recovery

With strong employment gains in May, a broad-based recovery appears to be in place.

■ REVIEW OF RECENT ECONOMIC DEVELOPMENTS

The positive employment report for May provided the final ingredient for a full-fledged recovery. Real employment growth has been the missing factor in the economic recovery. The national recession officially ended in November 2001. Yet as recently as March 2004, nonfarm payroll employment was lower than it was at the end of the recession, in both the nation and California. In the last three months, California job growth has resumed in earnest, joining renewed business investment, strong residential construction, healthy real estate markets, and rebounding state exports to create a balanced, sustainable recovery.

Employment

May was the third consecutive month of industry employment growth for California and was the first time since January that it garnered nearly its typical share of national employment gains. California added 23,600 industry jobs, which accounts for 9.5 percent of the nation's job growth in May. The state typically accounts for 11 percent of total national employment. The nonfarm payroll employment gains in May bring the year-to-date increase to 84,600.

The May advance was very broad, with growth in 9 out of 11 major sectors. Information was the leading major sector in May, adding 7,400 jobs, which almost completely reversed losses in March and April. A recent surge in film, television, and commercial production activity in Southern California led Motion Picture and Video Production to account for more than all of the job gains in the Information sector. Total location production activity in April was up better than 38 percent from a year ago.

In other sectors, Professional and Business Services added 6,600 jobs; Trade, Transportation and Utilities, 4,500; Leisure and Hospitality, 3,800; Educational and Health Services, 3,300; Construction, 3,100; Other Services, 2,800; Financial Activities, 1,700; and Manufacturing, 400 (its second consecutive gain). In the negative column, Government lost 9,800 jobs; and Natural Resources and Mining, 200.

Accelerating Employment

May marks the fifth consecutive month that California employment exceeded its year-ago level. While the gains are modest in historical terms—varying between 0.1 percent in January and 0.8 percent in May—the trend is looking up, and the employment situation is clearly improving. On a year-over-

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FIGURE 1

Motion Pictures Buoy Information Sector

Nonfarm Employment Growth April - May 2004 Not Seasonally Adjusted	
Information	7,400
Motion Picture & Video Industries	7,900
Internet Service Providers, Web Portals & Data Proc.	300
Broadcasting (except Internet)	100
Telecommunications	(100)
Publishing Industries (except Internet)	(400)
Other Information Services	(400)

year basis, California nonfarm employment rose by 110,200. Professional and Business Services accounted for the lion's share of this growth by adding 62,500 jobs. Nearly all of this sector's growth came from the Employment Services subsector, which is dominated by temporary help employment. Expanding temporary help employment is usually seen as a harbinger of upcoming permanent employment growth.

In other sectors, employment rose over the year by 33,300 in Trade, Transportation and Utilities; 30,400 in Educational and Health Services; 27,500 in Construction; 20,600 in Leisure and Hospitality; 14,000 in Financial Activities; and 300 in Natural Resources and Mining. Employment was down over the year by 46,700 in Government, led by losses in local education (public schools). Other year-over-year losses include 21,800 in Manufacturing; 8,600 in Information; and 1,300 in Other Services.

Labor force grows

California's unemployment rate held steady at 6.2 percent in May after falling dramatically in April from 6.6 percent in March. This drop brought the unemployment rate back in line with the rates established earlier this year. The rate in January was 6.2 percent, followed by 6.3 percent in February. In May, civilian employment expanded by 36,700 and unemployment fell by 10,500, which means the civilian labor force grew by 26,200.

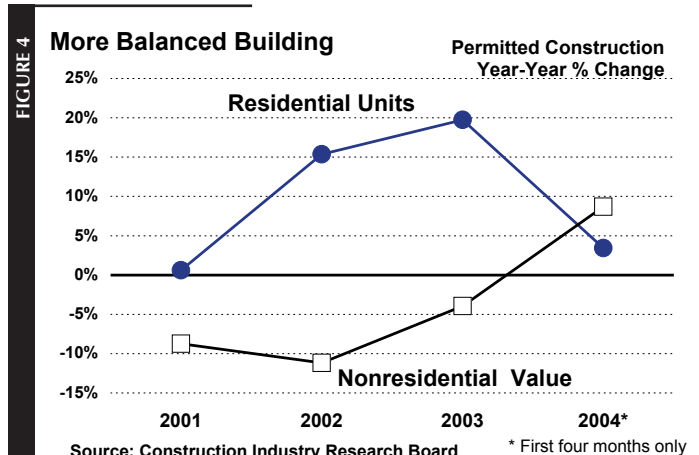
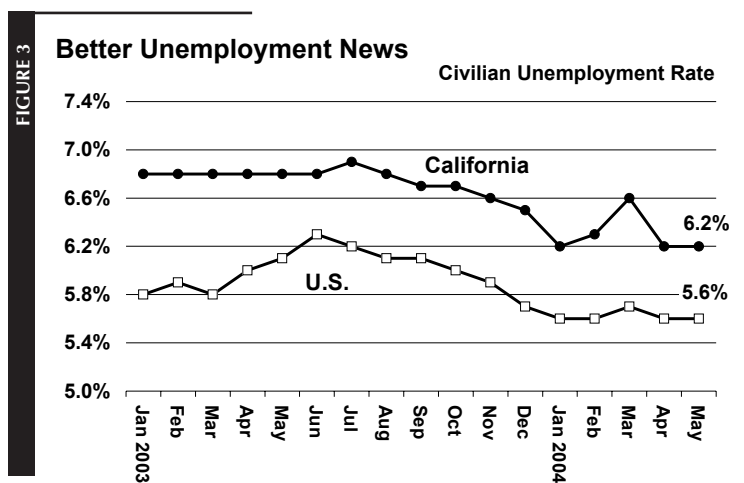
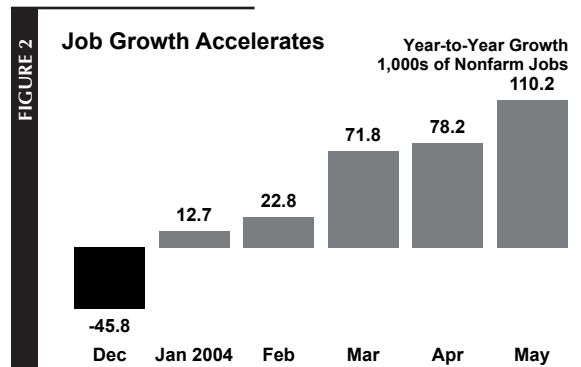
The national unemployment rate was 5.6 percent in May, also unchanged from April. This places California's unemployment rate just 0.6 percentage point above the national rate.

Building Activity

Construction in California has become more balanced, with nonresidential construction at last making a positive contribution. The recent business-led recession caused a major slowdown in commercial construction, especially in the hard-hit San Francisco Bay Area. In contrast, residential building actually expanded modestly during the recession and accelerated thereafter. Building activity during the first four months of 2004 has been characterized by a turnaround in nonresidential construction accompanied by moderating home building growth.

Home building is moderating in 2004

Healthy single-family homebuilding in April kept 2004 residential construction growth in positive territory. Total residential construction, as measured by permit issuances, reached a seasonally adjusted annual rate of 197,000 units in April, a 5.0-percent increase from April 2003. During the first four months of 2004, total residential construction is up a modest 1.0 percent from the same months of 2003.



More offices

Building on March's growth, nonresidential construction in April continued a vigorous expansion, with a nearly 20-percent year-over-year gain, as measured by the seasonally adjusted value of permits issued. Substantial growth in office and retail construction, as well as alterations and additions, led this growth. Renewed office construction is a good sign of a pick-up in business investment in the state. Total nonresidential construction permitting during the first four months of 2004 is up 7.7 percent from the same months of 2003.

Real Estate

Home sales are stabilizing

Existing single-family home sales grew briskly in April following a slowdown in February and March. The specter of rising mortgage rates may be prompting many buyers to accelerate purchases. Overall, home sales during the first four months of 2004 are 5.8 percent better than the same months of 2003. Home sales from January through April averaged 608,953 units on a seasonally adjusted-annual rate basis.

Accelerating home sales in April, along with lean inventories, kept home prices moving up. The median price of existing single-family homes sold in April reached \$453,590, more than 24 percent above the April 2003 median.

Exports

Exuberant demand for made-in-California products

A surge in made-in-California exports is a major feature of the state's recent strength and a good omen for the future. During the first quarter of 2004, exports of California-manufactured goods increased a tremendous 25-percent from the first quarter of 2003—nearly double the growth in the nation's exports as a whole. This is a sharp contrast to the acute drop in exports in 2002 and the tepid 1.9-percent growth in 2003. This turnaround is attributed to both the improving economies of our major trading partners—most notably Mainland China—and from a weak dollar. Most significantly for California, exports of computer and electronics products jumped almost 20 percent from the first quarter of 2003. Transportation equipment and nonelectrical machinery exports also made major contributions.

Mainland China has quickly become a much more significant destination for made-in-California exports is. Exports to China exploded by nearly \$800 billion, or 71 percent, from the first quarter of 2003. To illustrate its rising significance, consider that the value of California-made exports to China during the first quarter of 2004 (\$1.8 billion) nearly equaled its 1997 full year total (\$2.0 billion).

Exports to nearly all of California's major destinations grew briskly in the first quarter of 2004. Combined exports to our NAFTA partners Mexico and Canada were up over 10 percent compared to the first quarter of 2003. Japan increased its consumption of made-in-California goods almost 29 percent over the year.

FIGURE 5

Robust Export Growth

Made-in-California Exports Top 25 Destinations*

Country	Exports (\$millions)		Percent Change
	2003Q1	2004 Q1	
1 Mexico	\$ 3,475.6	\$ 3,774.0	8.6%
2 Japan	\$ 2,700.0	\$ 3,476.1	28.7%
3 Canada	\$ 2,615.2	\$ 2,948.4	12.7%
4 China (Mainland)	\$ 1,078.5	\$ 1,842.4	70.8%
5 South Korea	\$ 1,243.3	\$ 1,448.8	16.5%
6 United Kingdom	\$ 1,063.4	\$ 1,311.4	23.3%
7 China (Taiwan)	\$ 945.1	\$ 1,302.3	37.8%
8 Netherlands	\$ 807.2	\$ 1,178.9	46.0%
9 Hong Kong	\$ 921.3	\$ 1,136.7	23.4%
10 Singapore	\$ 779.9	\$ 994.9	27.6%
11 France	\$ 497.2	\$ 943.7	89.8%
12 Germany	\$ 879.5	\$ 901.3	2.5%
13 Australia	\$ 412.9	\$ 631.2	52.9%
14 Malaysia	\$ 375.7	\$ 511.1	36.1%
15 Belgium	\$ 354.0	\$ 389.2	9.9%
16 Thailand	\$ 275.1	\$ 370.8	34.8%
17 Italy	\$ 311.9	\$ 309.0	-0.9%
18 Philippines	\$ 219.5	\$ 264.9	20.7%
19 Brazil	\$ 165.2	\$ 250.9	51.8%
20 Ireland	\$ 222.3	\$ 219.0	-1.5%
21 Hungary	\$ 18.1	\$ 204.2	1026.2%
22 India	\$ 212.0	\$ 203.5	-4.0%
23 Spain	\$ 153.2	\$ 189.3	23.5%
24 Israel	\$ 195.7	\$ 176.1	-10.0%
25 Switzerland	\$ 154.1	\$ 163.4	6.0%
Rest of the World	\$ 1,569.7	\$ 1,920.6	22.4%
California Exports	\$ 21,645.3	\$ 27,062.1	25.0%

* Based on 2004Q1 exports.

Source: Massachusetts Institute for Social and Economic Research

■ ECONOMIC FORECAST UPDATE

The following forecast is adapted from the May Revision of the Governor's 2004–05 Budget and is based on information available as of April 2004.

National economic output grew strongly in the first quarter of 2004, extending a period of faster growth that began in the third quarter of 2003. Consumer spending, business investment in information processing equipment and software, national defense, exports, and investment in private inventories were the major contributors to the gain in first-quarter output. Other economic indicators portrayed a surging manufacturing sector, near-record home sales, strong wholesale sales, and a healthy services sector. But inflation turned up, and despite a string of small job gains, labor markets remained weak.

California's economy also improved. Most encouraging, personal income growth picked up solidly in the fourth quarter of 2003. In addition, taxable sales grew for the sixth quarter in a row. And, exports of made-in-California merchandise turned around in the second half of last year after declining for almost three years. More recently, residential construction and housing markets remained strong in the first quarter of 2004. But, as in the nation, labor markets remained weak, particularly in the San Francisco Bay Area.

The strengthening of both economies almost guarantees that 2004 will improve on 2003. However, this outlook is not without risks. Long-term interest rates jumped one half-percentage point in April on signs that the stronger national economy was putting pressure on prices. Sharply higher interest rates would slow residential construction, cool real estate markets, and reduce the mortgage refinancing that has fueled a considerable amount of consumer spending in the last three years. In addition, the economies will not be able to maintain their faster pace of the last nine months unless job growth picks up. If these risks can be avoided, the next two years should bring improved economic performance.

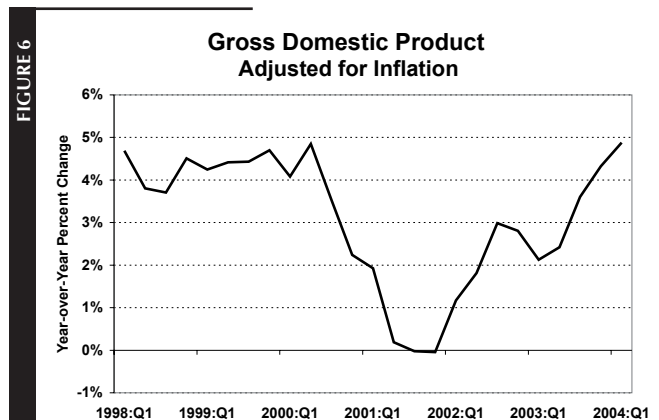
The Nation

Adjusted for inflation, gross domestic product (GDP) rose at a robust 4.2 percent annualized rate in the first quarter of 2004. Coming in the wake of strong economic growth in the second half of 2003, first-quarter real GDP was 4.9 percent higher than the year-earlier level, making it the strongest four-quarter gain since 1984. As a measure of the economy's recent acceleration, first-quarter 2003 real GDP was only 2.1 percent above the year-earlier level.

Buoyed by large federal income tax refunds, last year's tax cuts, mortgage refinancing, and improved optimism about the economy, consumers spent 3.8 percent more at an annualized rate in the first quarter. They favored food, clothing and shoes, gasoline, fuel oil, and other (petroleum-based) goods, and medical care while cutting back on motor vehicles and parts. Consumer confidence has trended slowly upwards since March 2003 with signs of an improving economy outweighing disappointment over high gasoline prices and concern over the escalating conflict in Iraq.

Business investment also continued to grow strongly in the first quarter, although it was concentrated in a few categories. Investment in information processing equipment and software grew at a double-digit annualized rate for the fifth consecutive quarter. Spending on industrial equipment was up, but remained at levels much below that of 2000 and early 2001. Investment in transportation equipment remained depressed, falling slightly. Construction of nonresidential structures slipped for the 11th time in the last 13 quarters. Residential investment was up, but much more modestly than in recent quarters. And business inventories rose modestly.

Government spending rose 2 percent, largely on a surge in national defense spending. Public sector spending has closely followed the ups and downs of national defense spending in the last three years. State and local government expenditures fell for the second consecutive quarter.



Net exports (exports minus imports) increased in the first quarter, as exports of goods and services increased slightly more than imports of goods and services. The weaker dollar likely played a role in this improvement in the trade deficit, as did the strengthening economies of major trading partners of the United States.

Monthly statistics since the beginning of 2004 reflect the strengthening of the economy in the first quarter and point to additional improvement in the second quarter. The Institute for Supply Management's survey of national manufacturing indicated that manufacturing activity expanded for 11 consecutive months through March 2004. Additionally, the Federal Reserve's industrial production index posted eight consecutive gains before falling slightly in March and is up 3.4 percent over last year. The Institute for Supply Management's nonmanufacturing index depicted a nonmanufacturing sector that has grown for 13 consecutive months.

Nonfarm payroll employment increased for seven consecutive months through March 2004. The gains were small, on average, and left employment below its level at the end of the 2001 recession. But they, along with declining initial claims for unemployment insurance benefits and declining layoff announcements, point toward better labor markets ahead.

While residential construction grew more slowly in the first quarter, home markets soared. Boosted by favorable weather and low mortgage rates, existing home sales in March reached their second highest level on record and new home sales jumped to a new record.

While still very low, inflation appears to be turning up. The Consumer Price Index jumped a higher-than-expected 0.5 percent in March. While surging energy prices were instrumental in the gain, a variety of non-energy prices also played a role—apparel, lodging, and medical care. Also, the Producer Price Index jumped in March in response to rising energy prices, higher food prices, and increasing prices of cars and trucks. In addition, there were large increases in crude and intermediate goods prices. The advance GDP report showed that the price index for gross domestic purchases, which measures prices paid by U.S. residents, increased at a 3.2 percent annualized rate in the first quarter, compared with an increase of 1.3 percent in the fourth quarter of 2003. Excluding food and energy prices, the price increase was 2.3 percent in the first quarter as compared with 1.5 percent in the fourth quarter.

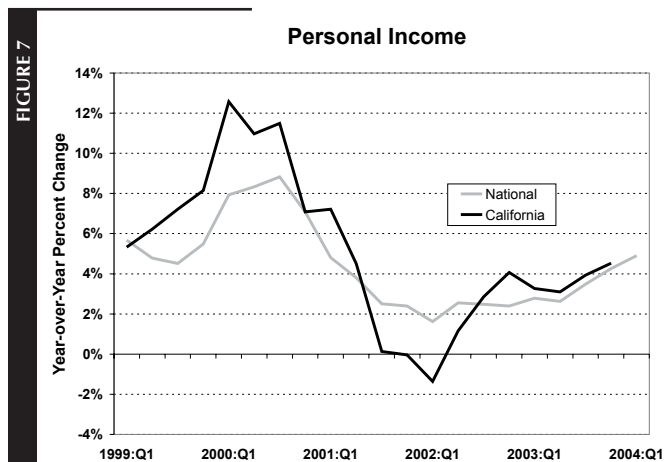
California

Since the release of the Governor's Budget, positive signs in the economy have increased and troubling ones have grown fewer. Foremost among the positive signs is a pick-up in state personal income growth. In the second quarter of 2003, personal income was 3.1 percent higher than a year earlier; two quarters later it was 4.5 percent ahead of a year ago. And once again, personal income is increasing more quickly in the state than in the nation.

Wages and salaries tell a similar story of improvement, as do state personal income tax withholdings. The latter look particularly strong, up almost 9 percent through the first four months of 2004. About a percentage point and a half of that gain is due to two extra days of collections in March 2004. Yet even net of that, the gain is quite striking.

State taxable sales are also improving with six consecutive quarters of year-over-year growth through the fourth quarter of 2003. The most current county taxable sales data are for the first quarter of 2003. While quite dated, they show taxable sales declined in every major San Francisco Bay Area county and increased in every major Southern California and Central Valley county.

Exports of California-made merchandise recovered enough in the third and fourth quarters of 2003 to push the yearly total slightly ahead of the 2002 level. In the fourth quarter of 2003, exports of California-made computer and electronics products were more than 10 percent higher than a year earlier—a sign that the worldwide high-tech recession is over. For the year as a whole, however, high-tech exports were lower than in 2002. Exports of transportation equipment, chemicals, agricultural products, and food and kindred products grew considerably in 2003. By major markets, state exports to Mexico and Taiwan fell considerably in 2003, while those to Japan, Canada, mainland China, Hong Kong, and Italy grew appreciably.



Low mortgage rates kept residential real estate markets strong in the first quarter of 2004. The median price of homes sold in Southern California hit a new record of \$371,000 in March, up 23.3 percent from a year earlier—the strongest year-over-year gain in over 15 years. Sales were up over 17 percent from a year ago. Despite a weak economy, home price appreciation and sales were also strong in the San Francisco Bay Area. The median price of homes sold was a record \$474,000 in March, up 13.1 percent from a year earlier. Sales were up 25 percent from a year ago.

The foremost missing ingredient in California's economic recovery is strong job growth. California nonfarm payroll employment was revised down a moderate amount in the annual revision of the state's employment statistics. Unfortunately, the hard-hit San Francisco Bay Area accounted for almost all of the downward revision; payroll employment was revised up in all major Southern California metropolitan areas except Los Angeles County. (Sacramento metropolitan area nonfarm payroll employment was revised up considerably.) Even with the downward revisions, it appears that Bay Area employment will start to grow around year-end. In March 2004, nonfarm employment was down 1.6 percent from a year earlier; just three months earlier, it was down 2.9 percent. At that rate of improvement, nonfarm payroll employment will be even with the year-earlier level near the turn of the year. That includes Santa Clara County—the county hit hardest by the high-tech recession.

The Forecast

For more than a year, the chief worry about both economies was that improved job growth would not come in time. Today that is less of a concern. While job growth remains anemic, other measures of labor market conditions have improved considerably—fewer claims for unemployment insurance benefits, smaller announced layoffs, and greater help wanted advertising. Stronger job growth is close at hand. How strong it becomes is difficult to predict because of uncertainty about longer-run productivity growth in the economy. The huge investment in high-tech equipment and software in the second half of the 1990s resulted in much higher productivity in recent years, allowing companies to produce more with the same number or fewer employees. This extraordinarily high productivity growth cannot last much longer, though the new level of long-run productivity growth should be somewhat higher than average productivity growth before the boom in high-tech equipment and software. But just when this will happen and where it settles is difficult to predict.

The recoveries of the national and California economies accelerated in the last nine months. The improvement is evident in broad measures of the economy—Gross Domestic Product, sales, personal income, business investment, business profits, and international trade, among others.

The national economy will continue to grow strongly during the remainder of 2004. For the year as a whole, real GDP will increase 4.6 percent. Output growth will slow somewhat in 2005 as consumer spending and business investment grow less quickly. Other than insufficient job growth, the primary risks to the outlook are higher interest rates and inflation. Both have moved up in recent months.

On an annual average basis, job growth will be only 0.8 percent in California in 2004 because labor markets did not improve early in the year. Job creation will build as the year proceeds and will average 2.1 percent in 2005. Growth in total state personal income will improve from 5.4 percent in 2004 to 5.6 percent in 2005. California faces the same major economic risks as the nation.

FIGURE 8

Selected U.S. Economic Indicators

	2003	Forecast	
		2004	2005
Real gross domestic product, (2000 dollar) (Percent change)	3.1	4.6	3.5
Personal consumption expenditures	3.1	3.8	2.8
Gross private domestic investment	4.2	10.1	4.3
Government purchases of goods and services	3.3	2.7	2.1
GDP deflator (2000=100) (Percent change)	1.7	1.7	1.4
GDP, (Current dollar) (Percent change)	4.8	6.5	4.9
Federal funds rate (Percent)	1.13	1.13	2.28
Personal income (Percent change)	3.3	4.7	5.0
Corporate profits before taxes (Percent change)	15.0	20.6	32.7
Nonfarm wage and salary employment (Millions)	129.9	130.9	133.3
(Percent change)	-0.3	0.7	1.9
Unemployment rate (Percent)	6.0	5.6	5.5
Housing starts (Millions)	1.85	1.84	1.69
(Percent change)	8.0	-0.2	-8.5
New car and light truck sales (Millions)	16.6	16.9	17.0
(Percent change)	-0.8	1.7	0.7
Consumer price index (1982-84=100)	184.0	188.0	191.4
(Percent change)	2.3	2.2	1.8

Forecast based on data available as of April 2004.

Percent changes calculated from unrounded data.

FIGURE 9

Selected California Economic Indicators

	2003	Percent change	Forecast			
			2004	Percent change	2005	Percent change
Personal income (\$ billions)	\$1,197.6	3.7%	\$1,262.4	5.4%	\$1,333.1	5.6%
Nonfarm W&S employment (thousands)	14,408	-0.3%	14,525	0.8%	14,832	2.1%
Natural resources and mining	22	-5.2%	22	-0.8%	22	-0.9%
Construction	788	1.8%	824	4.5%	868	5.3%
Manufacturing	1,543	-5.8%	1,517	-1.7%	1,538	1.4%
High technology	399	-9.2%	388	-2.9%	394	1.7%
Trade, transportation, & utilities	2,715	-0.3%	2,723	0.3%	2,747	0.9%
Information	471	-5.2%	467	-0.9%	487	4.2%
Financial activities	886	3.9%	904	2.0%	926	2.4%
Professional and business services	2,114	0.0%	2,174	2.8%	2,247	3.4%
Educational and health services	1,538	2.6%	1,576	2.5%	1,625	3.1%
Leisure and hospitality	1,399	1.2%	1,424	1.8%	1,453	2.0%
Other services	505	-0.1%	505	-0.1%	514	1.8%
Government	2,427	-0.8%	2,391	-1.5%	2,408	0.7%
Unemployment rate	6.7%		6.3%		6.1%	
Housing permits (thousands of units)	199	18.6%	200	0.6%	200	0.0%
Consumer price index (1982-84=100)	190.4	2.3%	195.2	2.5%	199.7	2.3%

Forecast based on data available as of April 2004.

Select Indicators

	2003	2004				Year-Over- % Change
	May	Feb	Mar	Apr	May	
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	16,253	16,485	16,410	16,475	16,511	1.6%
Unemployment (000)	1,187	1,103	1,151	1,098	1,087	-8.4%
Unemployment rate	6.8	6.3	6.6	6.2	6.2	--
Nonagricultural wage and salary employment (000) a/	14,391.0	14,440.4	14,461.9	14,477.6	14,501.2	0.8%
Goods-producing industries	2,358.7	2,356.5	2,356.1	2,361.4	2,364.7	0.3%
Natural resources and mining	21.8	21.0	21.4	22.3	22.1	1.4%
Construction	787.2	809.0	809.1	811.6	814.7	3.5%
Manufacturing	1,549.7	1,526.5	1,525.6	1,527.5	1,527.9	-1.4%
Service-providing industries	12,032.3	12,083.9	12,105.8	12,116.2	12,136.5	0.9%
Trade, transportation, and utilities	2,714.3	2,728.4	2,743.1	2,743.1	2,747.6	1.2%
Information	475.0	466.7	464.4	459.0	466.4	-1.8%
Financial activities	886.2	893.2	895.9	898.5	900.2	1.6%
Professional and business services	2,097.8	2,142.2	2,148.4	2,153.7	2,160.3	3.0%
Educational and health services	1,533.5	1,555.8	1,558.9	1,560.6	1,563.9	2.0%
Leisure and hospitality	1,391.9	1,406.3	1,405.6	1,408.7	1,412.5	1.5%
Other services	506.2	499.7	501.4	502.1	504.9	-0.3%
Government	2,427.4	2,391.6	2,388.1	2,390.5	2,380.7	-1.9%
High-technology industries b/	877.4	858.8	859.8	858.5	860.7	-1.9%
Computer and electronic products manufacturing	328.5	319.2	319.6	319.9	320.5	-2.4%
Aerospace products and parts manufacturing	72.9	72.4	73.0	73.5	73.8	1.2%
Software publishers	45.1	42.9	42.9	42.7	42.7	-5.3%
Telecommunications	121.0	117.1	116.6	114.8	114.7	-5.2%
Internet service providers	48.6	48.0	48.2	48.2	48.5	-0.2%
Computer systems design	166.3	163.0	163.4	163.0	163.5	-1.7%
Scientific research and development	95.0	96.2	96.1	96.4	97.0	2.1%
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	39.7	39.9	40.1	39.7	40.2	1.3%
Average weekly earnings	\$593.52	\$607.28	\$610.32	\$608.20	\$617.87	4.1%
Average hourly earnings	\$14.95	\$15.22	\$15.22	\$15.32	\$15.37	2.8%
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	n.a.	193.1	n.a.	194.4	n.a.	--
San Francisco CMSA	n.a.	198.1	n.a.	198.3	n.a.	--
Los Angeles CMSA	186.4	190.1	191.5	191.9	193.3	3.7%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	186.4	n.a.	187.9	n.a.	--
San Francisco CMSA	n.a.	194.1	n.a.	194.7	n.a.	--
Los Angeles CMSA	179.9	183.4	184.9	185.2	186.8	3.8%
CONSTRUCTION						
	2003	2004				
	Apr	Jan	Feb	Mar	Apr	
Private residential housing units authorized (000) c/						
Single units	188	195	215	232	197	5.0%
Multiple units	127	162	146	165	148	16.1%
Multiple units	61	32	69	67	50	-18.1%
Residential building authorized valuation (millions) d/	\$36,180	\$42,352	\$45,228	\$47,942	\$41,499	14.7%
Nonresidential building authorized valuation (millions) d/	\$14,268	\$12,817	\$13,232	\$16,758	\$17,096	19.8%
Nonresidential building authorized valuation (millions) e/	1,191	951	958	1,317	1,430	20.1%
Commercial	312	295	305	449	462	48.1%
Industrial	167	82	56	75	138	-17.8%
Other	247	191	175	250	270	9.4%
Alterations and additions	465	383	422	543	561	20.6%
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	141,521	142,566	151,383	162,330	n.a.	--

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).

b/ Not seasonally adjusted

c/ Seasonally adjusted at annual rate

d/ Seasonally adjusted

e/ Not seasonally adjusted

n.a. Not available

Select Indicators *Continued*

VACANCY RATES FOR FIRST QUARTER 2004 (Percent)

	Office Downtown		Office Suburban		Office Total		Industrial	
	1Q04	1Q03	1Q04	1Q03	1Q04	1Q03	1Q04	1Q03
Northern and Central California:								
Oakland	17.3	17.2	17.4	15.8	17.4	16.1	n.a.	n.a.
Sacramento	13.2	9.0	13.4	11.3	13.3	10.8	14.7	15.3
San Francisco	18.2	18.7	23.8	25.9	19.9	20.9	13.0	13.6
San Jose	17.6	19.8	21.7	21.8	20.8	21.4	n.a.	n.a.
Southern California:								
Los Angeles Metro	16.9	18.8	14.4	13.4	14.8	14.3	8.8	9.1
Orange County	n.a.	n.a.	13.2	16.6	13.2	16.6	n.a.	n.a.
San Diego	9.0	10.4	11.5	11.9	11.0	11.6	11.8	11.2
Ventura County	n.a.	n.a.	11.5	13.9	11.5	13.9	n.a.	n.a.
National Average	14.7	14.1	17.9	17.8	16.8	16.4	11.3	11.5

FOREIGN TRADE THROUGH CALIFORNIA PORTS

SALES OF EXISTING SINGLE-FAMILY HOMES

DOD PRIME CONTRACTS a/

		Median Price	Units (SAAR)	Exports (\$ millions)	Imports (\$ millions)		\$ millions	% of U.S.
2001	Jan	\$244,110	502,800	\$12,284	\$19,173	1981-82	\$22,685	21.8%
	Feb	241,690	486,370	11,595	16,201	1982-83	26,387	22.2%
	Mar	257,550	518,410	12,390	19,475	1983-84	28,520	23.0%
	Apr	255,310	495,390	10,492	17,624	1984-85	29,115	20.8%
	May	255,860	505,590	10,948	16,885	1985-86	27,738	20.4%
	Jun	266,930	526,570	10,721	18,274	1986-87	24,515	18.4%
	Jul	267,520	503,030	9,890	18,206	1987-88	23,458	18.7%
	Aug	282,420	571,070	10,288	18,277	1988-89	23,125	19.3%
	Sep	275,620	475,380	9,634	17,585	1989-90	22,312	18.4%
	Oct	263,020	494,920	10,038	19,532	1990-91	24,265	19.5%
	Nov	270,210	493,870	9,315	17,184	1991-92	23,843	21.2%
	Dec	281,330	474,490	9,659	15,525	1992-93	22,952	20.1%
2002	Jan	\$287,080	584,250	\$8,688	\$15,517	1993-94	22,573	20.5%
	Feb	294,870	610,380	8,429	15,768	1994-95	18,277	16.8%
	Mar	305,840	586,230	9,945	16,318	1995-96	18,230	16.7%
	Apr	317,120	643,030	9,274	17,807	1996-97	18,477	17.3%
	May	319,590	620,300	9,814	17,568	1997-98	17,401	15.9%
	Jun	324,640	533,840	9,984	18,988	1998-99	17,372	15.1%
	Jul	321,900	540,800	9,335	18,998	1999-00	18,100	14.7%
	Aug	334,270	562,780	9,948	19,686	2000-01	19,939	14.7%
	Sep	322,450	493,800	9,286	19,478	2001-02	23,816	15.0%
	Oct	324,670	579,240	8,794	18,753	2002-03	28,681	15.0%
	Nov	328,440	542,120	9,046	20,522			
	Dec	338,840	573,790	8,797	19,060			
2003	Jan	\$336,210	584,600	\$8,408	\$17,588			
	Feb	326,640	566,890	8,423	16,359			
	Mar	352,780	567,610	9,784	18,789			
	Apr	364,040	583,330	9,158	19,151			
	May	369,450	572,270	9,090	18,537			
	Jun	375,610	572,130	9,743	19,774			
	Jul	383,390	595,860	9,604	20,743			
	Aug	400,020	645,720	9,626	19,846			
	Sep	380,040	631,880	8,968	21,060			
	Oct	380,350	636,690	10,341	23,021			
	Nov	384,930	627,190	9,969	21,320			
	Dec	403,570	637,080	10,437	20,528			
2004	Jan	\$406,220	615,660	\$9,062	\$19,996			
	Feb	395,060	589,220	9,536	18,011			
	Mar	428,570	590,220	11,420	22,589			
	Apr	453,590	640,710	10,249	21,722			

a/ U.S. fiscal year: October through September

Leading Indicators/^a

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
2001	Jan	4.1	39.9	47,065	7,474	194.6
	Feb	4.2	40.2	51,343	6,465	138.4
	Mar	4.0	39.9	53,726	6,562	146.5
	Apr	3.5	39.5	53,017	6,217	152.7
	May	3.8	39.7	56,205	6,714	152.8
	Jun	3.8	39.3	55,053	6,429	149.0
	Jul	3.8	39.5	55,764	6,494	129.5
	Aug	3.9	39.6	57,542	7,309	158.4
	Sep	3.9	39.5	59,829	6,149	114.3
	Oct	3.7	39.3	64,090	6,933	145.1
	Nov	3.6	39.0	57,914	7,216	141.3
	Dec	3.7	39.3	47,557	6,922	162.8
2002	Jan	3.8	39.0	66,867	7,175	150.8
	Feb	4.0	39.5	55,653	6,932	166.2
	Mar	4.1	40.0	60,564	7,369	147.1
	Apr	4.1	40.0	64,132	7,305	162.4
	May	4.1	39.7	60,539	8,520	156.2
	Jun	4.1	39.9	59,679	7,012	150.1
	Jul	4.0	39.3	63,104	7,174	179.7
	Aug	4.0	39.8	61,589	7,645	164.0
	Sep	3.9	39.8	61,305	7,726	182.8
	Oct	3.7	39.5	63,105	7,929	214.3
	Nov	3.9	39.6	58,190	7,370	188.6
	Dec	3.9	39.7	58,106	7,778	152.3
2003	Jan	3.9	39.7	60,938	7,275	192.7
	Feb	4.0	39.9	58,324	8,809	261.1
	Mar	3.7	39.8	58,847	7,228	188.7
	Apr	3.7	39.8	65,902	7,840	188.0
	May	3.8	39.9	60,158	7,772	210.2
	Jun	3.7	39.9	61,883	7,939	178.6
	Jul	3.9	39.5	61,862	7,913	197.7
	Aug	3.8	39.5	58,148	7,108	174.8
	Sep	3.9	39.4	58,124	8,865	193.4
	Oct	3.7	39.5	60,267	7,802	224.8
	Nov	4.1	40.1	53,659	7,275	185.4
	Dec	3.9	39.4	50,224	8,477	195.9
2004	Jan	4.0	40.1	50,745	7,905	194.7
	Feb	4.2	40.3	49,833	8,869	214.8
	Mar	4.2	40.3	48,368	8,550	231.9
	Apr	4.5	40.1	51,481	8,381	197.4
	May	4.6	40.4	45,693	8,180	n.a.

a/ Seasonally adjusted by the California Department of Finance.

n.a. Not available

Coincident Indicators/^a

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2001	Jan	14,715	1,875	4.6	354
	Feb	14,720	1,866	4.7	356
	Mar	14,728	1,855	4.8	364
	Apr	14,666	1,831	4.9	386
	May	14,650	1,812	5.1	413
	Jun	14,641	1,797	5.2	421
	Jul	14,574	1,778	5.3	445
	Aug	14,582	1,761	5.6	471
	Sep	14,525	1,740	5.7	478
	Oct	14,512	1,723	6.0	524
	Nov	14,476	1,704	6.2	512
	Dec	14,449	1,689	6.3	520
2002	Jan	14,433	1,675	6.5	511
	Feb	14,451	1,667	6.6	538
	Mar	14,463	1,662	6.7	527
	Apr	14,466	1,656	6.7	541
	May	14,491	1,652	6.6	553
	Jun	14,470	1,645	6.7	542
	Jul	14,455	1,637	6.7	549
	Aug	14,475	1,629	6.7	530
	Sep	14,462	1,622	6.7	541
	Oct	14,479	1,615	6.7	541
	Nov	14,488	1,605	6.8	509
	Dec	14,462	1,594	6.8	517
2003	Jan	14,430	1,586	6.8	509
	Feb	14,418	1,575	6.8	514
	Mar	14,390	1,564	6.8	511
	Apr	14,399	1,559	6.8	571
	May	14,391	1,550	6.8	540
	Jun	14,389	1,541	6.8	552
	Jul	14,387	1,532	6.9	555
	Aug	14,411	1,528	6.8	535
	Sep	14,408	1,525	6.7	539
	Oct	14,450	1,530	6.7	520
	Nov	14,437	1,529	6.6	509
	Dec	14,417	1,528	6.5	510
2004	Jan	14,443	1,526	6.2	446
	Feb	14,440	1,527	6.3	445
	Mar	14,462	1,526	6.6	434
	Apr	14,478	1,528	6.2	442
	May	14,501	1,528	6.2	413
		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)	
2001	Qtr I	\$1,154,610	\$661,164	\$111,989	
	Qtr II	1,140,671	650,103	111,275	
	Qtr III	1,126,813	637,092	108,517	
	Qtr IV	1,121,298	632,386	109,442	
2002	Qtr I	\$1,138,923	\$637,183	\$108,528	
	Qtr II	1,153,842	640,756	109,986	
	Qtr III	1,159,050	641,676	111,384	
	Qtr IV	1,166,924	647,142	110,449	
2003	Qtr I	\$1,176,099	\$649,812	\$112,286	
	Qtr II	1,189,601	657,019	113,415	
	Qtr III	1,204,715	666,122	114,874	
	Qtr IV	1,219,787	671,804	113,181	

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

■ ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

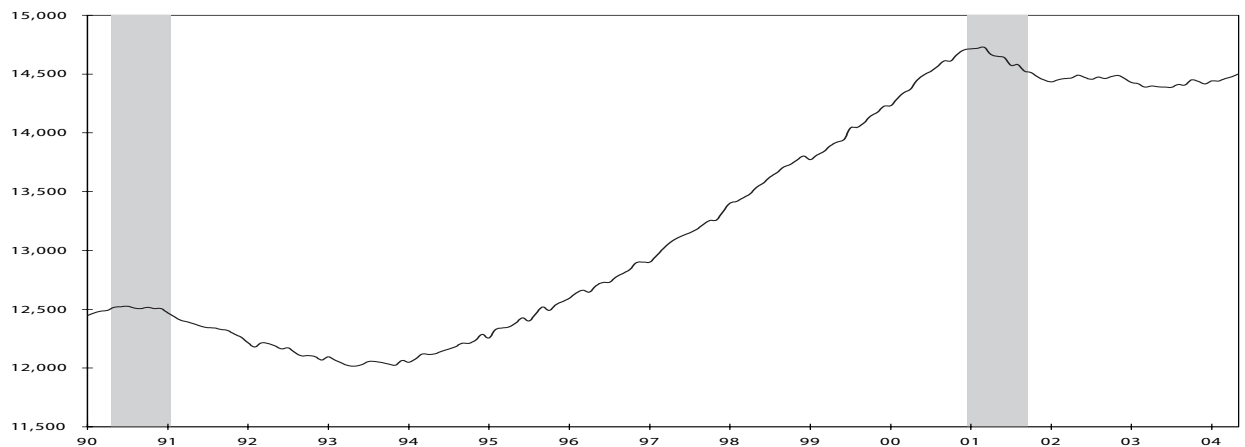
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

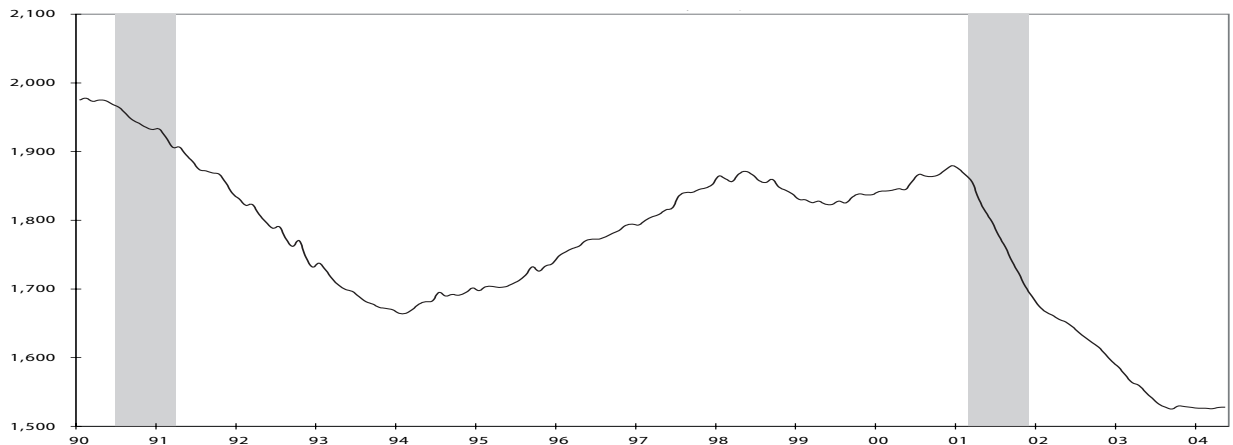
This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

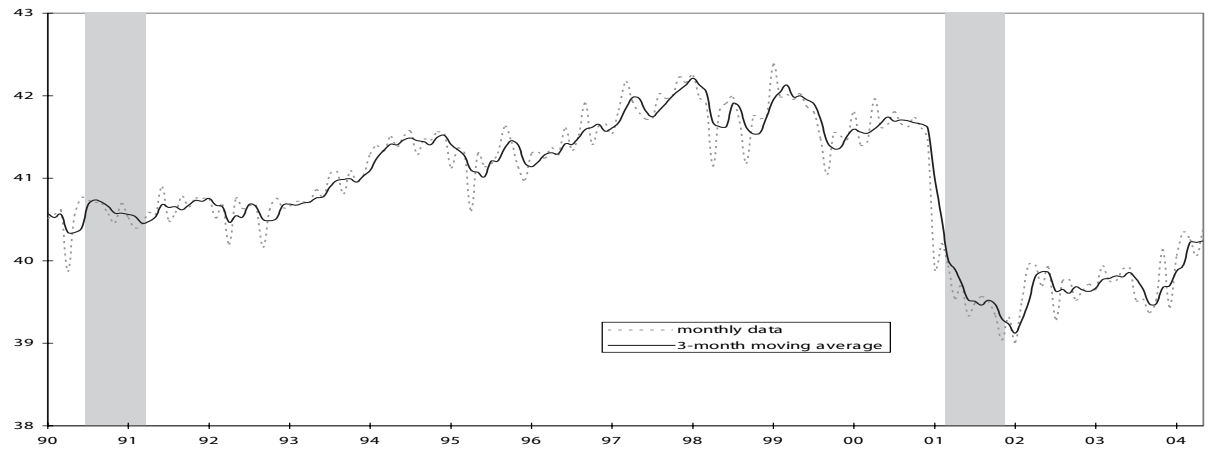
**Nonagricultural
Employment**
(thousands,
Seasonally Adjusted)



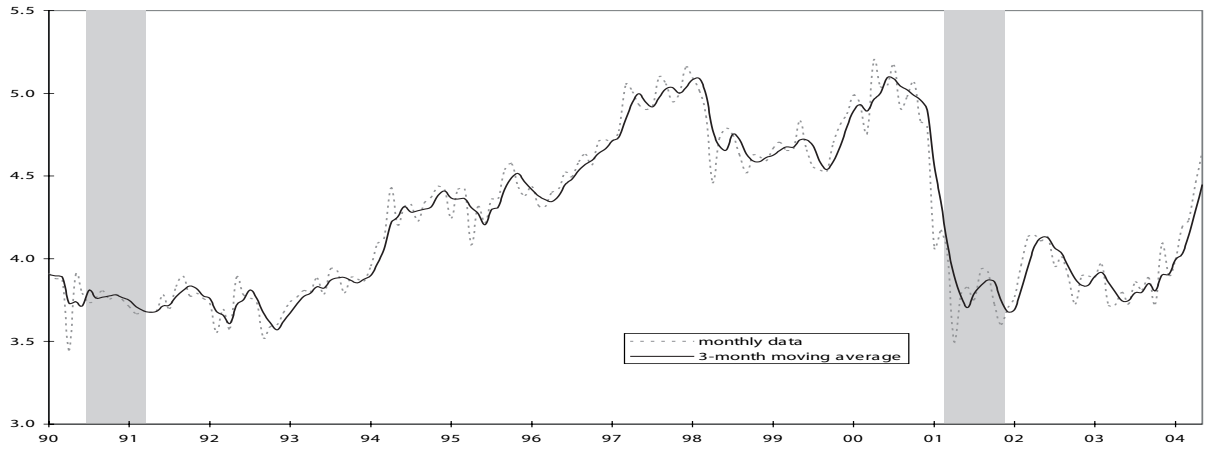
**Manufacturing
Employment**
(thousands,
Seasonally Adjusted)



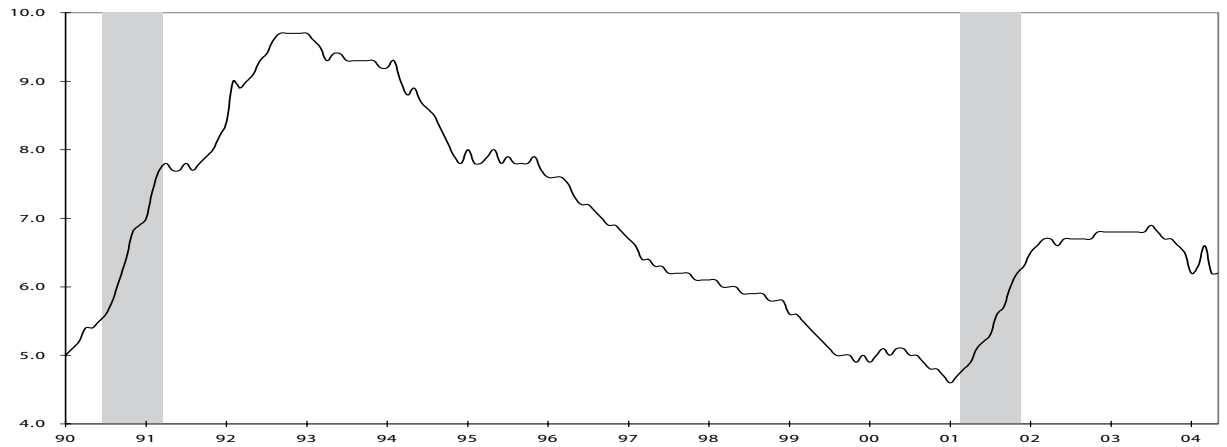
Average
Weekly Hours,
Manufacturing
(Seasonally Adjusted)



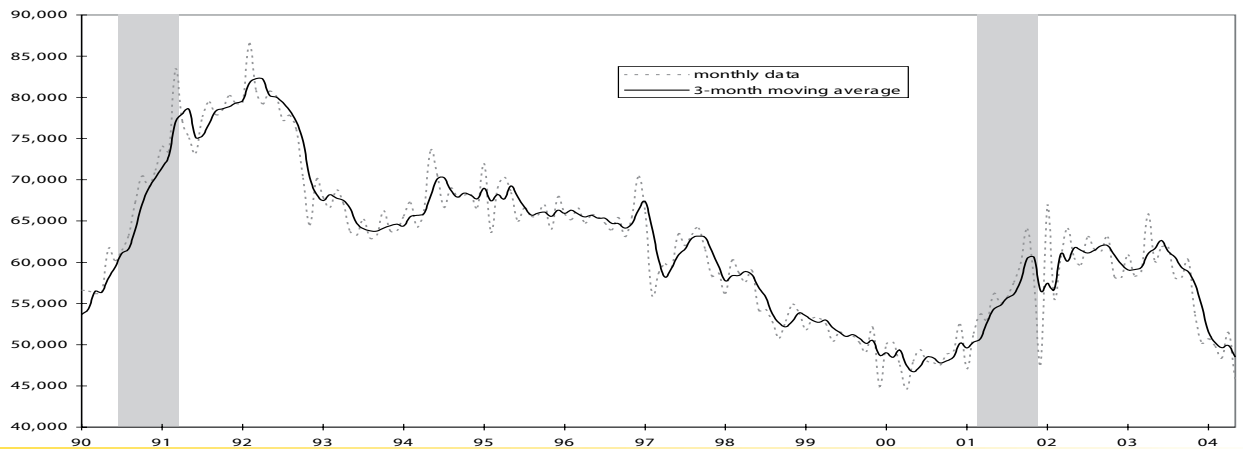
Average
Overtime Hours,
Manufacturing
(Seasonally Adjusted)



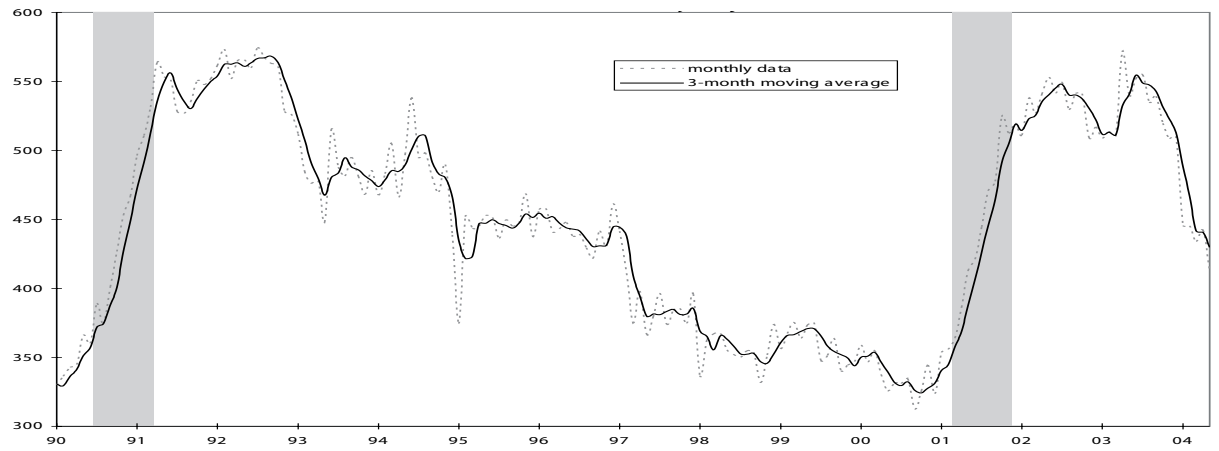
Unemployment
Rate
(Percent)



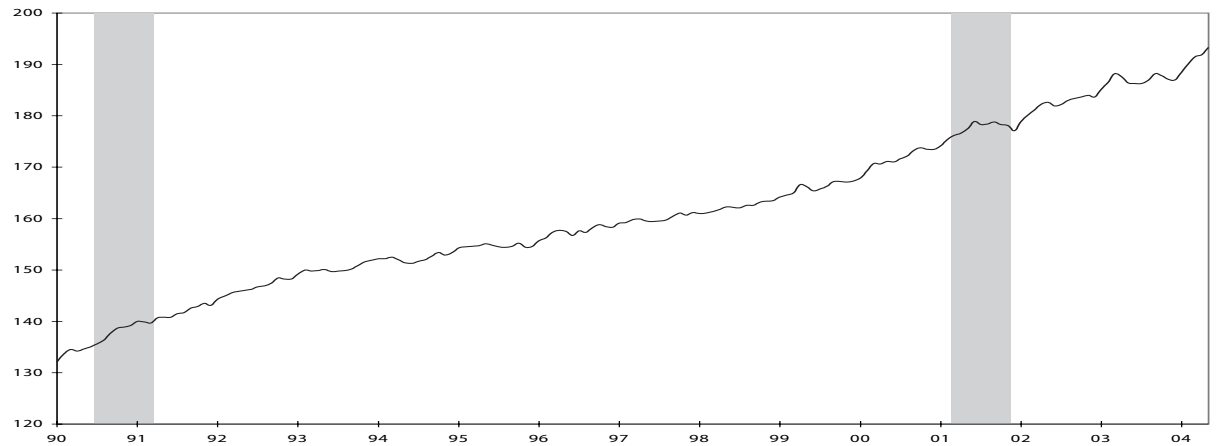
Initial &
Transitional
Claims for
Unemployment
Insurance
(Weekly Average,
Seasonally Adjusted)



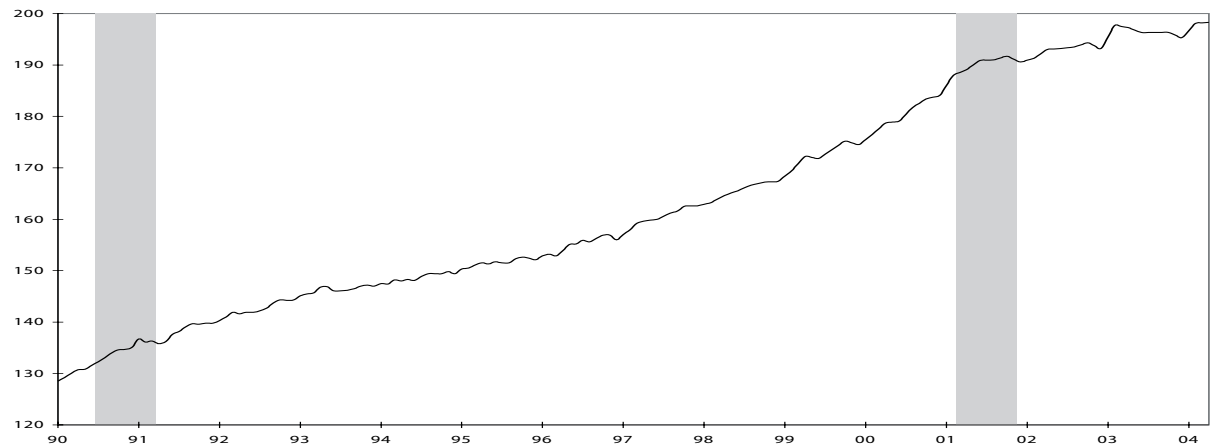
Unemployment,
Average Weeks
Claimed
(thousands,
Seasonally Adjusted)



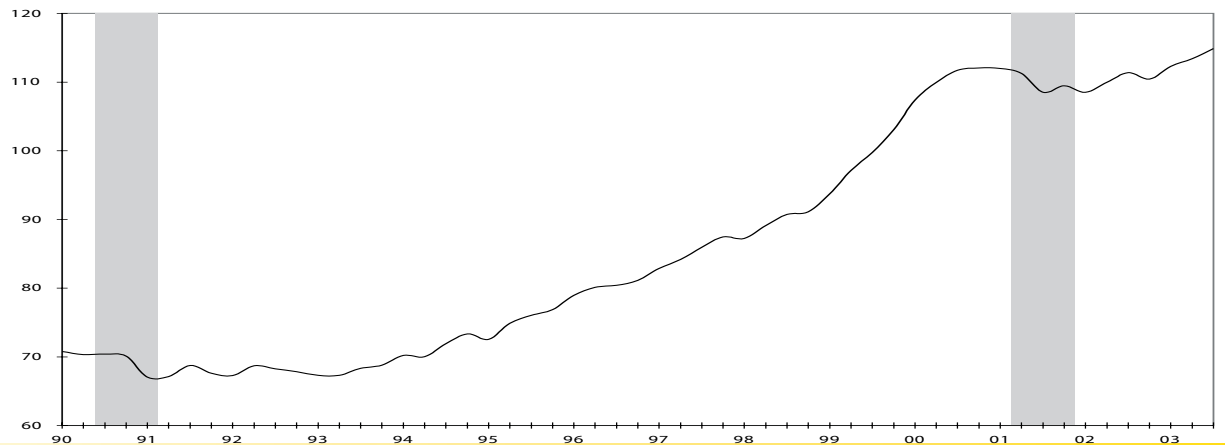
Consumer
Price Index,
Los Angeles
(1982-84=100)



Consumer
Price Index,
San Francisco
(1982-84=100)

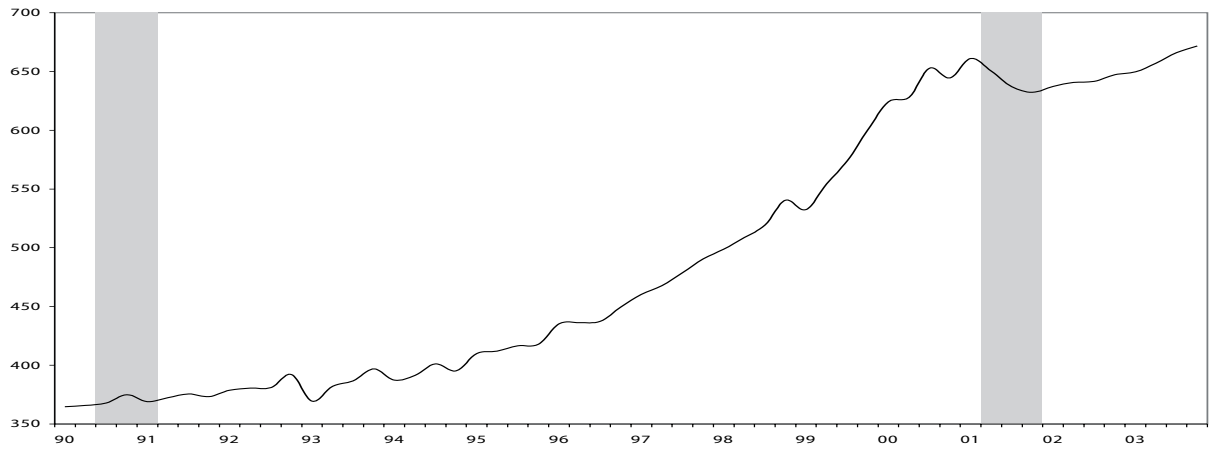


Taxable Sales
(Dollars in billions,
Seasonally Adjusted)



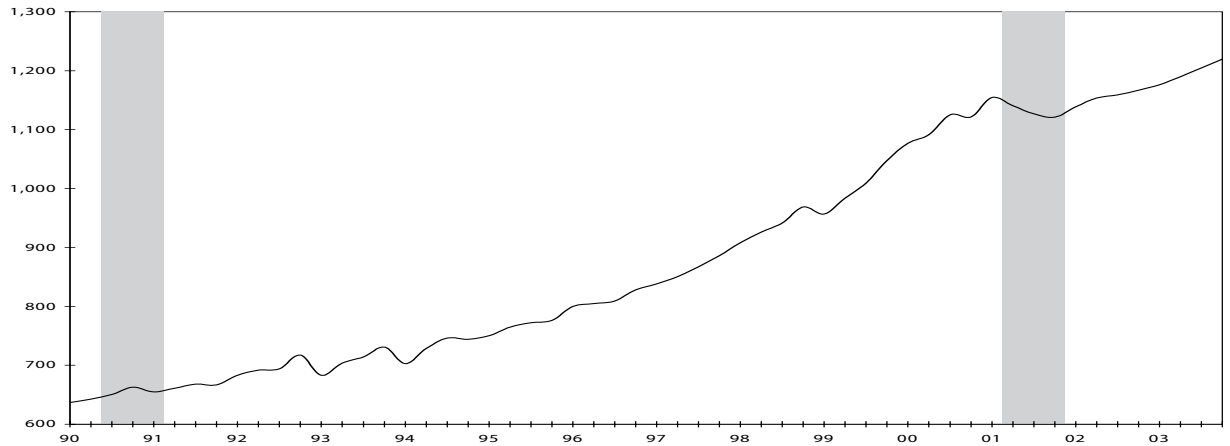
Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



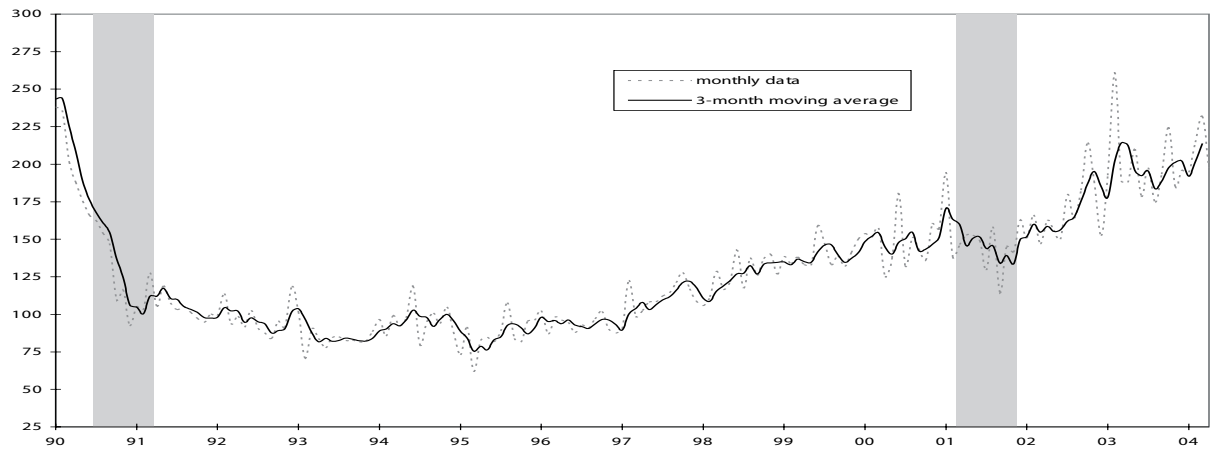
Personal Income

(Dollars in billions, Seasonally Adjusted)



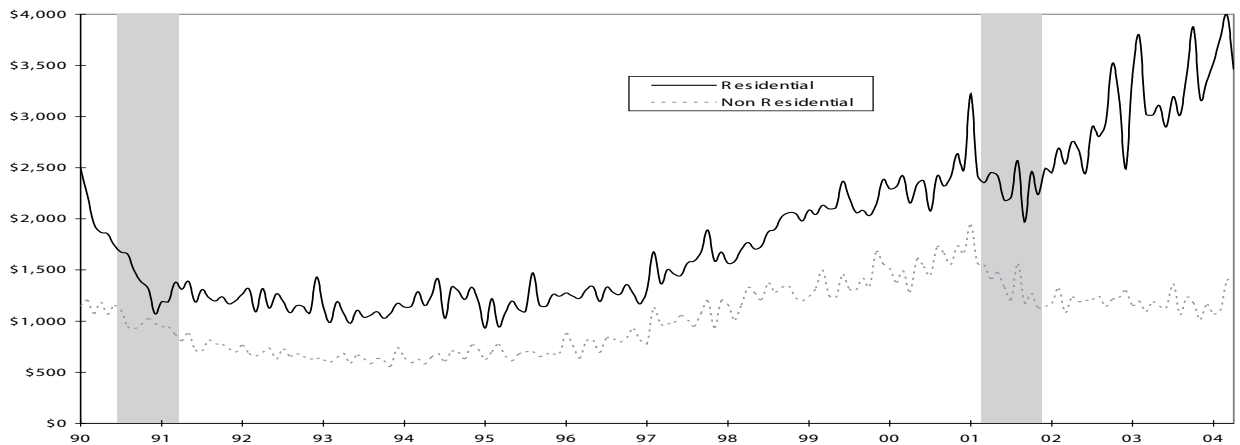
New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)



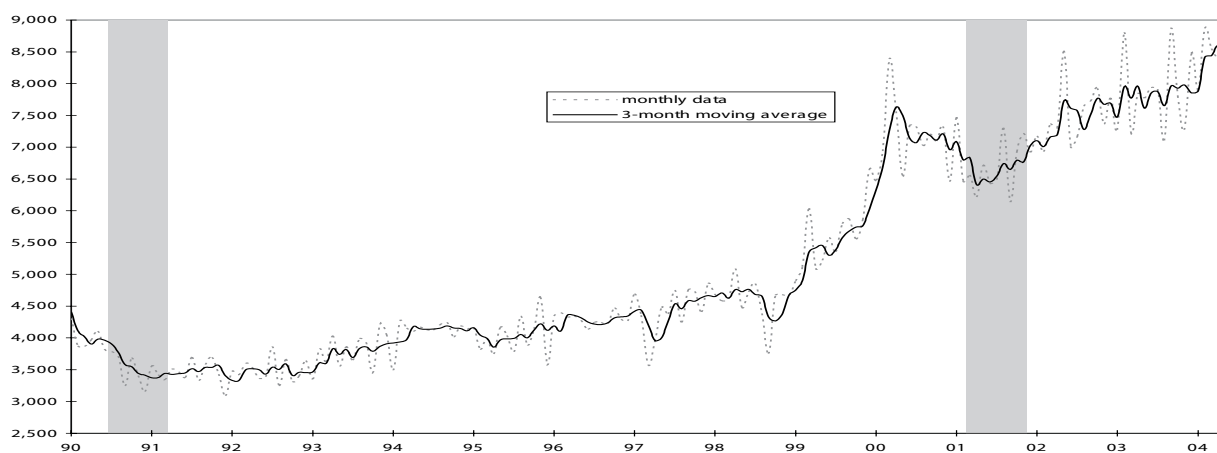
Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



New Business Incorporations

(Seasonally Adjusted)



BUSINESS CYCLES

REFERENCE DATES OF UNITED STATES BUSINESS CYCLES, 1854-2001

Initial Trough		Peak		Terminal Trough		Expansion (months)	Contraction (months)	Total (months)
Dec.	1854	June	1857	Dec.	1858	30	18	48
Dec.	1858	Oct.	1860	June	1861	22	8	30
June	1861	April	1865	Dec.	1867	46	32	78
Dec.	1867	June	1869	Dec.	1870	18	18	36
Dec.	1870	Oct.	1873	March	1879	34	65	99
March	1879	March	1882	May	1885	36	38	74
May	1885	March	1887	April	1888	22	13	35
April	1888	July	1890	May	1891	27	10	37
May	1891	Jan.	1893	June	1894	20	17	37
June	1894	Dec.	1895	June	1897	18	18	36
June	1897	June	1899	Dec.	1900	24	18	42
Dec.	1900	Sept.	1902	Aug.	1904	21	23	44
Aug.	1904	May	1907	June	1908	33	13	46
June	1908	Jan.	1910	Jan.	1912	19	24	43
Jan.	1912	Jan.	1913	Dec.	1914	12	23	35
Dec.	1914	Aug.	1918	March	1919	44	7	51
March	1919	Jan.	1920	July	1921	10	18	28
July	1921	May	1923	July	1924	22	14	36
July	1924	Oct.	1926	Nov.	1927	27	13	40
Nov.	1927	Aug.	1929	March	1933	21	43	64
March	1933	May	1937	June	1938	50	13	63
June	1938	Feb.	1945	Oct.	1945	80	8	88
Oct.	1945	Nov.	1948	Oct.	1949	37	11	48
Oct.	1949	July	1953	May	1954	45	10	55
May	1954	Aug.	1957	April	1958	39	8	47
April	1958	April	1960	Feb.	1961	24	10	34
Feb.	1961	Dec.	1969	Nov.	1970	106	11	117
Nov.	1970	Nov.	1973	March	1975	36	16	52
March	1975	Jan.	1980	July	1980	58	6	64
July	1980	July	1981	Nov.	1982	12	16	28
Nov.	1982	July	1990	March	1991	92	8	100
March	1991	March	2001	Nov.	2001	120	8	128

■ CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: www.dof.ca.gov

2001

March 19	OPEC to cut oil production by 1 million barrels a day.
March 19–20	California suffered rolling blackouts.
March 20	Federal funds rate reduced from 5.5 percent to 5.0 percent. Discount rate reduced from 5.0 percent to 4.5 percent.
March 27	California regulators approved retail electric rate increase.
March 29	GDP grew at an annual rate of 1 percent in the fourth quarter, the lowest in more than 5 years.
April 6	PG&E utility unit files for bankruptcy.
April 18	Federal funds rate reduced from 5.0 percent to 4.5 percent. Discount rate reduced from 4.5 percent to 4.0 percent.
April 23	A Tosco refinery explosion pushed gasoline prices to near record highs.
April 24	Standard & Poors lowered California's bond rating from AA to A+
April 27	GDP grew at an annual rate of 2 percent in the first quarter.
May 7–8	California hit by rolling blackouts.
May 15	Federal funds rate reduced from 4.5 percent to 4.0 percent. Discount rate reduced from 4.0 percent to 3.5 percent.
June 7	Federal tax cut was signed into law.
June 18	The Federal Energy Regulatory Commission adopted a price "mitigation" plan designed to reduce spikes in wholesale electricity prices in California and other Western states.
June 27	Federal funds rate reduced from 4.00 percent to 3.75 percent. Discount rate reduced from 3.50 percent to 3.25 percent.
June 29	First quarter GDP growth rate revised to 1.2 percent.
August 21	Federal funds rate reduced from 3.75 percent to 3.50 percent. Discount rate reduced from 3.25 percent to 3.00 percent.
August 29	Second quarter GDP grew at a 0.2 percent annual rate. Discount rate reduced from 3.25 percent to 3.00 percent.
August 29	Second quarter GDP grew at a 0.2 percent annual rate.
September 11	Terrorists attack World Trade Center and the Pentagon.
September 11–14	U.S. stock trading halts.
September 17	Federal funds rate reduced from 3.50 percent to 3.00 percent. Discount rate reduced from 3.00 percent to 2.50 percent. Dow Jones Industrials record biggest point drop in history, falling 684.41.
October 2	Federal funds rate reduced from 3.00 percent to 2.50 percent. Discount rate reduced from 2.50 percent to 2.00 percent.
October 26	Lockheed Martin Corporation awarded defense contract.

November 6	Federal funds rate reduced from 2.50 percent to 2.00 percent. Discount rate reduced from 2.00 percent to 1.50 percent.
November 26	Recession in the US began in March 2001, according to NBER.
December 2	Enron filed for bankruptcy protection.
December 11	Federal funds rate reduced from 2.00 percent to 1.75 percent. Discount rate reduced from 1.50 percent to 1.25 percent. China becomes WTO member.
December 21	GDP down 1.3 percent in Q3.
December 31	Markets fall for a second straight year for the first time since 1974.

2002

January 1	Taiwan becomes WTO member. OPEC to cut oil production by 6.5 percent. Euro becomes legal tender in 12 European countries.
January 6	Unemployment insurance benefits increased in California.
February 28	GDP up 1.4 percent in Q4.
March 9	California's "Job Creation and Worker Assistance Act of 2002" was signed into law that provides for temporary extended unemployment compensation.
March 28	GDP up 1.7 percent in Q4.
April 25	Security and Exchange Commission launched a formal investigation of Wall Street analysts' conflicts of interest.
May 13	President Bush signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers.
June 27	GDP up 6.1 percent in Q1.
July 5	Foreign direct investment flows to developed countries declined by 56% in 2001, with the United States seeing the largest fall off to its lowest level since 1997.
July 8	Intel launches its Itanium 2 chip.
July 10	President Bush called for stiffer penalties to eradicate corporate fraud.
July 15	Pfizer to buy Pharmacia.
July 16	The dollar sank against the euro for the first time in more than two years. Intel to eliminate 4,000 jobs.
July 21	WorldCom filed for bankruptcy protection.
July 22	The Dow Jones industrial average sank to its lowest level in nearly four years. Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.
July 30	President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.
July 31	GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1. Last year's data was also revised indicating that the economy shrank in each of the first three quarters. Venture capital investments hit four-year low.
August 8	IMF signed an emergency loan to Brazil.
August 11	U.S. Airways filed for bankruptcy.
August 20	The U.S. trade deficit narrowed in June, following two straight record monthly deficits.
September 27 –October 9	Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.

November 6	Federal funds rate reduced from 1.75 percent to 1.25 percent. Discount rate reduced from 1.25 percent to 0.75 percent.
December 9	United Airlines filed for bankruptcy protection.
December 19	Standard & Poor's lowered California's bond rating to an A from an A+.

2003

February 10	Moody's lowered California's bond rating to A2 from A1.
February 14–17	A major snowstorm hit the Middle Atlantic and Eastern states.
February 26	Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
March 20	Operation Iraqi Freedom begins.
April 9	Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
April 14	President Bush declares conclusion of major combat operations in Iraq.
June 25	Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
June 26	GDP up 1.4 percent in Q1.
July 17	The US recession ended in November 2001, according to NBER.
July 24	S&P lowered California's bond rating from "A" to "BBB".
July 25	United States Treasury begins mailing \$400 per child tax rebate checks.
August 2	Governor Gray Davis signs the 2003-04 state budget bill.
August 4	Moody's lowered California's bond rating from A2 to A3.
August 28	GDP grew at a revised 3.1 percent annual rate in the 2nd quarter.
September 3	Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
October 21	Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
October 30	GDP grew by 7.2 percent, its fastest rate since 1984.
December 4	President Bush ends steel tariffs.
December 12	Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
December 13	Saddam Hussein captured by American troops.
December 23	Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
December 24	U.S. confirms first case of "mad cow" disease.

2004

February 10	Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
February 11	Dow Jones Industrials closed at highest level in more than 2½ years.
March 25	Fourth quarter GDP rose 4.1 percent.
April 30	International oil prices hit a 3½ year high.
May 27	First quarter GDP grew at a 4.4 percent annual rate.

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